Saskatchewan Computer Utility Corporation

ANNUAL REPORT 1985

86-03344/

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Photo Credit: Synercom Technology Inc., Sugar Land, Texas, for our cover photo of a three dimensional representation of urban population density.

LETTER OF TRANSMITTAL

Honourable J. Gary Lane

March 14, 1986
Regina, Saskatchewan

To His Honour
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual report of the Saskatchewan Computer Utility Corporation for the year ending December 31, 1985 including the financial statements therefor duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Saskatchewan Computer Utility Corporation Act. I have the honour to be, Sir, your obedient servant.

J. Gary Lane

Minister-In-Charge
Saskatchewan Computer
Utility Corporation

CHAIRMAN'S MESSAGE

D. Gavin Koyl
Chairman of the Board

In the highly competitive environment of the computer service industry, SaskCOMP has once again demonstrated its ability to sustain growth, reduce customer costs yet increase customer service.

During 1985 the Corporation laid the ground-work for innovative profit centres as various alternative revenue sources were investigated. The nature of the industry will demand even closer vigilance over costs and revenues, together with the targeting of new ventures.

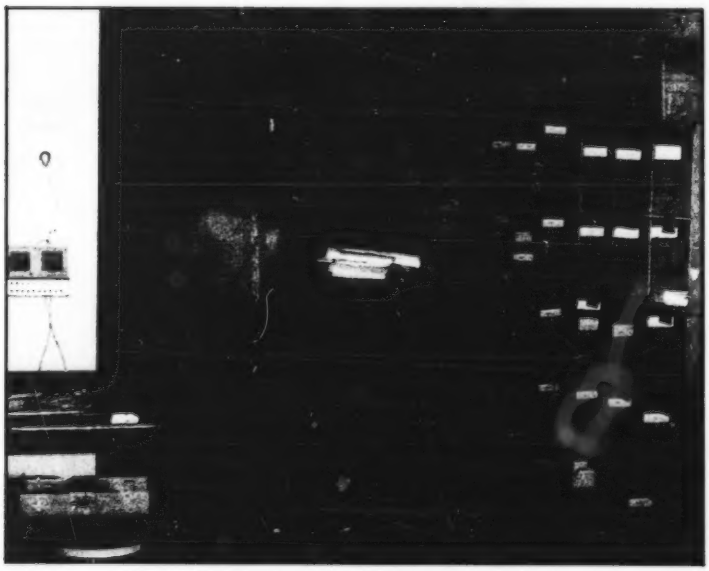
In 1986 SaskCOMP will continue to upgrade computer service facilities. At year end a new mainframe was installed with further equipment planned in early 1986. To meet customer demand the Corporation continues to add the latest software.

On behalf of the Board of Directors I wish to extend our appreciation to Mr. Arnold Nelson, SaskCOMP President 1983 - 1985. Mr. Nelson retired December 31, 1985 after a distinguished career in the Saskatchewan public service.

D. Gavin Koyl
Chairman of the Board

HIGHLIGHTS OF 1·9·8·5

- A 10% rate reduction was implemented on January 1, 1985.
- The ADR family of data base management products was installed on Regina Regional Computing Centre services.
- Online transactions increased 54%.
- Regina Regional installed an IBM 3090-200 as a replacement for one of its IBM 3081KX's
- SaskCOMP reached a 3 year agreement with SGI to ensure economies of scale for its total customer base.



Leo Dedecker, Senior Data Control Co-ordinator, Regina Regional Centre.

BOARD OF DIRECTORS

D. Gavin Koyl
Chairman
of the Board
Regina
President
Koyl Commercial
Real Estate Services
Ltd.

Hon. J. Gary Lane
Vice-Chairman
Regina
Minister of
Finance

D. L. Birkmaier
Saskatoon
Public Accountant

J. Cailes
Shell Lake
Homemaker

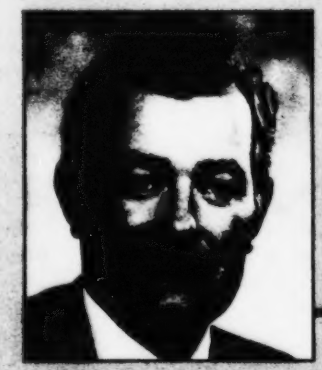
E. J. C. Dudley
Regina
Chartered
Accountant

J. Grant
Saskatoon
Business Woman

BOARD OF DIRECTORS

R. J. Milton
Regina
Chartered
Accountant

C. Reiter
Luseland
Homemaker

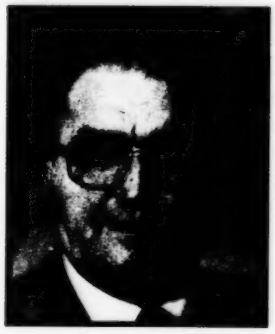


H. Seitz
Zehner
Farmer

L. Short
Saskatoon
Real Estate Agent

I. Dibbery
Secretary

PRESIDENT'S REPORT



A. L. M. Nelson,
President, Retired

The Corporation's financial and operational performance during 1985 continued to meet the high standards established over the last several years.

Net profit on the year's operation, although down from the exceptional 1984 level, remained healthy. Reduced profits are the result of the three rate reductions announced and implemented in 1984, and on January 1, 1985. Further pressure on profits came from increased expenses, primarily from hardware related items.

During the year, due to increased usage, SaskCOMP made several upgrades to its Regina Regional Centre processors. The last of these was the installation of a larger and more technologically advanced processor to replace one of the existing IBM 3081 units.

Customer usage in 1985 witnessed a significant increase in online activity which is evidenced not only by the demand on processing capability, but also on an almost doubling of online terminals accessing our Regina Regional Centre services. The online demand continues to grow at a very high rate while only slight growth has been witnessed in batch services.

Much of this online growth can be attributed to a few large customers, namely; Saskatchewan Revenue and Financial Services, Saskatchewan Social Services, Saskatchewan Telecommunications and Saskatchewan Government Insurance.

SaskCOMP was able to reach a three year agreement for delivery of services with SGI. This agreement will benefit our total customer base in that a significantly large processing workload will exist, providing economies of scale.

Along with an increase in demand for processing there was additional customer demand for new products and services. These demands led to the acquisition and installation of three data base management systems and several other product upgrades and additions. State-of-the-art laser printing was also installed.

Notwithstanding these demands, SaskCOMP was able to improve its customer satisfaction with the services delivered. The 1985 Survey of Customer Satisfaction revealed 40% of the respondents experienced a marked improvement in satisfaction while only 5% had a lower level over the previous year. The remaining respondents indicated no change. Customers found increased satisfaction with services related to security, publications, training, availability, and response times for most online services.

In addition to the quality of service, SaskCOMP continues to be conscious of the cost of services. SaskCOMP rates are among the lowest in the Canadian data processing service bureau industry. SaskCOMP implemented an additional 10% rate reduction on January 1, 1985. This reduction, along with those announced in 1984, provide an aggregated rate structure close to 30% lower than what was in place a year earlier.

In addition to the expanded processing capability and additional software products, our security was improved with the addition of TOP SECRET software and Disaster Recovery services. To further

PRESIDENT'S REPORT

enhance the physical security of our processing services, SaskCOMP undertook planning for the acquisition of a new computer centre as a replacement for Regina Regional. This new centre, when in production, should offer opportunities for additional efficiences, improved productivity, and security.

Improved efficiencies and productivity is an ongoing objective of the corporation, both for itself and for its customers. In 1985, SaskCOMP undertook several initiatives such as increased line speeds for faster online response times. SaskCOMP ordered IBM 3480 tape drives which we expect to give ten times the quality we receive with our existing tape drives.

Along with improved quality of service, the corporation was able to maintain control on its costs — despite pressures from increased workload demand and the installation of new products and services.

Pressure on costs resulted in 1985 expenses of $20,054,000 up 18% from 1984. These increased expenses along with reduced revenues, at a 1985 level of $22,410,000, resulted in a net profit of $2,356,000. Although profits were down, the corporation was able to attain an excellent return on equity for the province.

To keep pace with increased usage and the installation of new products, our Human Resources Division was able to attract new employees and maintain the skill levels of existing employees. In 1985, SaskCOMP employed twenty-four new staff members, most of which were analysts. As well, the Human Resources Division developed a formal training philosophy which will go a long way to maintain staff skills to keep pace with the dynamic changes of our industry and the services we offer.

The Affirmative Action program developed in 1984 was approved by the Human Rights Commission in 1985, with a report on our 1984 activities submitted and approved by the Commission.

At year end, the corporation was continuing its negotiations with Local 911 of the Energy and Chemical Workers' Union to renew its contract which terminated on September 30, 1985.

The only significant corporate reorganization in 1985 was in the Facilities Development Division. It was expanded and segregated into three subdivisions to better support and deliver new and existing products to our customers.

The year 1985 placed significant demands on the support and direction of our Board of Directors and staff. To Mr. D. Gavin Koyl, Board Chairman, The Honourable J. Gary Lane, Minister-in-Charge, and the Board of Directors, I would like to extend the corporation's appreciation.

The corporation's staff members met the challenges given them during the year, and it is to their loyalty that those challenges were met and successes were achieved. This we gratefully acknowledge.

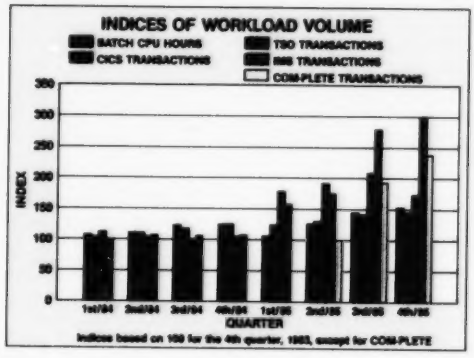
A. L. M. Nelson
President, Retired

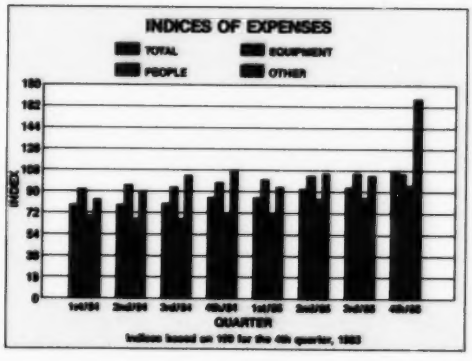
Ken Kelly, Analyst, Customer Support, Saskatoon Regional Centre.

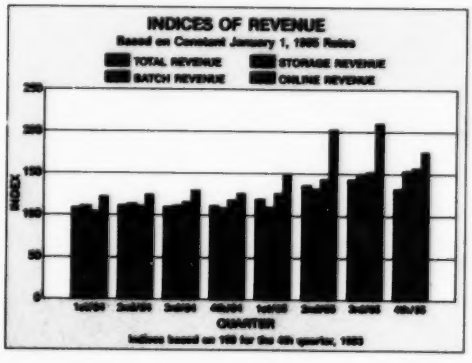
OPERATIONS REVIEW

Online transactions at the Saskatoon and Regina Computer Centres increased 54% over 1984, with 1985 online volume averaging 9.1 million transactions per month.

- 1985 Batch processing amounted to 4800 hours as measured in 3081KX processor equivalents.
- Notwithstanding the rate reductions implemented and announced during 1984 and 1985, revenue from computer processing increased 10%.
- Storage capacity at the three centres amounted to 218.5 billion bytes on hard disk and on the mass storage subsystem, and 45,850 magnetic tapes. This represents increases of 13% and 2% respectively over 1984.
- The number of terminals accessing SaskCOMP at year-end totalled 2976 interactive workstations, and 92 remote job entry stations — increases of 95% and 14%, respectively..
- Consulting provided 743 man-days of service in 1985, compared to 1,340 man-days in 1984.
- Through our various training programs SaskCOMP provided 1600 students days of training in 1985.
- An IBM 3090-200 computer was installed to replace one of the IBM 3081's.
- Disaster Recovery Services were introduced during 1985 for Regina Regional MVS customers.
- During 1985 two additional database families of products were planned — the ADR family of products and the IDMS/R.
- Dial-up 3270 services were made available at Regina Regional.
- The SaskCOMP SPC Centre was turned over to Saskatchewan Power Corporation for their operation and management.
- Potash Corporation of Saskatchewan moved in-house from SaskCOMP's Saskatoon Regional Centre.







FINANCIAL REVIEW

The effect of the rate reductions announced and implemented in 1984 continued to diminish the revenue performance of SaskCOMP in 1985. Revenues in 1985 were down 1% from the 1984 level.

Expenses in 1985 increased 18% from the 1984 level. This increase in 1985 expenses is primarily due to an increase in equipment related expenses.

Revenues for the fiscal year 1985 amounted to $22,410,000, a decrease of $244,000 from the 1984 level of $22,654,000. The resulting net income for 1985 is $2,356,000 which compares to $5,638,000 for 1984.

Cash generated from operations in 1985 amounted to $2,567,000.

Cash was used to acquire additional assets in the amount of $3,952,000 for SaskCOMP, and $165,000 for leasing division customers.

Cash was also used for debt repayment in the amount of $86,000, and $2,819,000 in dividend payments to Crown Investments Corporation.

Fixed asset investments at year-end, at cost, amounted to $11,708,000 as compared to $8,040,000 at the end of 1984. The corporation used additional leased assets valued at $15,293,000 when new. The equivalent leased asset value for 1984 was $18,772,000.

To minimize the amount of capital assets the corporation acquires, it follows a policy of leasing assets. By leasing, the corporation acquires a measure of protection against obsolescence in an industry that is characterized by short product life cycles.

Saskatchewan Computer Utility Corporation
10 Year Record of Progress 1976 - 1985

Financial	1985	1984	1983	1982*	1981	1980	1979	1978*	1977	1976
Revenue ($000's)	22,410	22,654	23,077	21,705	16,748	12,814	9,857	8,845	7,967	5,616
Expenses ($000's)	20,054	17,016	20,581	18,501	16,190	12,343	9,798	7,883	7,007	5,112
Net income ($000's)	2,356	5,638	2,496	3,204	558	471	59	962	960	504
Capital: Equity ($000's)	6,777	5,599	2,780	2,674	2,804	2,804	2,804	2,804	2,780	3,835
Long-term debt ($000's)	0	0	787	4,011	5,341	4,807	4,350	2,866	204	331
Employees										
Number of Employees	167	164	166	159	156	149	142	126	118	108
Revenue per Employee ($000's)	134	138	139	137	107	86	69	71	61	52
Facilities										
Processing Power (Millions of Instructions per Second)	32.3	27.9	25.0	25.0	16.1	12.7	7.9	5.1	5.1	3.4
Data Storage Capacity:										
— On-line (Billions of Bytes)	219	193	143	96	76	41	27	18	10	6
— Off-line (No. of Tapes in 000's)	46	45	44	43	41	36	31	26	23	20
No. of On-line Terminals (Approximate)	2,976	1,525	1,259	978	706	405	249	189	147	141
No. of Remote job Entry Stations	92	81	108	98	94	86	67	53	42	39

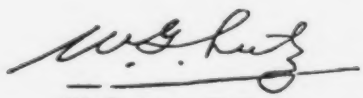
* Restated

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

I have examined the statment of financial position of the Saskatchewan Computer Utility Corporation as at December 31, 1985 and the statements of operations, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



W. G. Lutz, F. C. A.
Provincial Auditor.

Regina, Saskatchewan,
February 25, 1986.

STATEMENT OF FINANCIAL POSITION

Statement 1 — **as at December 31**

	1985	1984
	(Thousands of Dollars)	
Assets		
Current Assets:		
Short-term investments	$3,000	$3,300
Accounts receivable	4,110	2,668
Prepayments and supplies	448	273
	7,558	6,241
Net investment in leases receivable (Note 3)	322	674
Fixed assets (Note 4)	5,017	2,852
	$12,897	$9,767
Liabilities and Province's Equity		
Current Liabilities:		
Bank indebtedness	$1,204	$ 81
Accounts payable and accrued liabilities (Note 5)	1,557	1,268
Dividend payable	1,178	2,819
Current portion of obligation under capital lease	1,090	—
	5,029	4,168
Obligation under capital lease (Note 6)	1,091	—
	6,120	4,168
Province of Saskatchewan's Equity		
Advances (Note 7)	2,780	2,780
Retained earnings	3,997	2,819
	6,777	5,599
	$12,897	$9,767

(See accompanying notes)

STATEMENT OF OPERATIONS

Statement 2

	for the year ended December 31	
	1985	1984
	(Thousands of Dollars)	
Revenues:		
Sales of products and services	$21,992	$22,080
Other (Note 9)	418	574
	22,410	22,654
Expenses:		
Operating costs other than those listed below	13,107	11,469
Rental of Equipment	5,309	4,287
Depreciation and Amortization	1,572	1,217
Interest	66	43
	20,054	17,016
Net Earnings	$ 2,356	$ 5,638

(See accompanying notes)

STATEMENT OF RETAINED EARNINGS

Statement 3

	for the year ended December 31	
	1985	1984
	(Thousands of Dollars)	
Retained earnings, beginning of year	$2,819	$ —
Add net earnings	2,356	5,638
	5,175	5,638
Dividend - Crown Investments Corporation of Saskatchewan	(1,178)	(2,819)
Retained earnings, end of year	$3,997	$2,819

(See accompanying notes)

STATEMENT OF CHANGES IN FINANCIAL POSITION

Statement 4

	for the year ended December 31	
	1985	1984
	(Thousands of Dollars)	
Cash provided by (used in):		
Operating activities:		
Net income	$2,356	$5,638
Add (deduct) items not requiring or generating cash:		
Depreciation and amortization	1,572	1,217
Gain on sale of fixed assets	(33)	(70)
	3,895	6,785
Net change in non-cash working capital items	(1,328)	1,837
	2,567	8,622
Financing activities:		
Dividends paid	(2,819)	(2,390)
Assumption of obligation under capital lease	2,267	—
Repayment of long-term debt	—	(787)
Repayment of obligation under capital lease	(86)	—
	(638)	(3,177)
Investment Activities:		
Purchases of fixed assets	(3,952)	(1,392)
Investment in leases receivable	(165)	(959)
Proceeds from sales of fixed assets	248	239
Collections and change in current portion of leases receivable	517	799
	(3,352)	(1,313)
Net (decrease) increase in cash position	(1,423)	4,132
Cash position, beginning of year	3,219	(913)
Cash position, end of year	$1,796	$3,219

(Cash position is comprised of short-term investments less short-term indebtedness)

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

December 31, 1985

1. Significant Accounting Policies

Depreciation of Fixed Assets

Fixed assets are depreciated without residual value as follows:

Computer Equipment — equipment and associated software costs — straight line — one to six years.

Office Furniture and Equipment — straight line over ten years.

Leasehold Improvements — straight line over the lesser of ten years or the expected term of occupancy.

Equipment Under Capital Lease — equipment acquired under capital lease is depreciated on the same basis as owned equipment.

Leases

The Corporation as lessor:

Leases are classified as operating or direct financing leases. For direct financing leases the Corporation, as lessor, records the proceeds of asset disposals and related net investment in leases receivable at the present value of the future minimum lease receipts. All other leases are classified as operating leases and lease payments are recorded as income.

The Corporation as lessee:

Leases which transfer substantially all of the benefits and risks incident to ownership are considered capital leases and the related asset and lease obligations are recorded at the present value of future minimum lease payments (less executory costs). All other leases are accounted for as operating leases and rental payments are expensed as incurred.

2. Status of Corporation

The Saskatchewan Computer Utility Corporation was established in 1973 under the Saskatchewan Computer Utility Corporation Act to provide computer and data processing services to the Government of Saskatchewan and its crown corporations and agencies. These services are also available to other enterprises.

The Corporation has been designated by Order-in-Council as a corporation to which the provisions of Part II of The Crown Corporations Act, 1978 apply. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

3. Leases

For direct financing leases recorded in the accounts, the net investment in leases receivable is computed as follows:

	1985	1984
Future minimum lease payments receivable:	(Thousands of Dollars)	
1985	$ —	$ 707
1986	399	466
1987	185	171
1988	145	114
1989	40	30
Total future minimum lease payments receivable	769	1,528

NOTES TO FINANCIAL STATEMENTS

December 31, 1985

3. Leases (continued)

	1985	1984
	(Thousands of Dollars)	
Less unearned finance income	114	246
Present value of future minimum lease payments receivable	655	1,282
Less amount due in the next year, included in accounts receivable	333	608
Net investment in leases receivable	$ 322	$ 674

4. Fixed Assets

	Cost	Accumulated Depreciation and Amortization	1985 Net Book Value	1984 Net Book Value
		(Thousands of Dollars)		
Computer Equipment	$ 6,843	$4,775	$2,068	$2,073
Equipment Under Capital Lease	2,267	95	2,172	—
Office Furniture & Equipment	779	361	418	336
Leasehold Improvements	1,819	1,460	359	443
	$11,708	$6,691	$5,017	$2,852

5. Accrued Customer Discounts

Included in accounts payable are accrued customer discounts of $643,794 (1984 - $684,322). These discounts will be credited to the customers during 1986 under the terms of the contracts.

6. Obligation Under Capital Lease

Future minimum lease payments under the capital lease including the present value of the net minimum lease payments as at December 31 are:

	1985
	(Thousands of Dollars)
1986	$1,237
1987	1,134
Total minimum lease payments	2,371
Less amount representing interest*	190
Balance of obligation	2,181
Less current portion	1,090
	$1,091

* Interest rate set at 9.3% in the first year; subject to adjustment in the second year.

7. Advances

These advances are non-interest bearing and are repayable to the Crown Investments Corporation of Saskatchewan at its discretion.

NOTES TO FINANCIAL STATEMENTS

December 31, 1985

8. Commitments

At December 31, 1985 the Corporation had the following commitments:

(a) Leased Premises

The Corporation is committed to the following future minimum lease payments for office and operating premises:

	(Thousands of Dollars)
1986	$ 610
1987	501
1988	314
1989	252
1990	105
	$1,782

(b) Leased Equipment

The Corporation has entered into operating lease agreements for computer and communications equipment with provision for annual payments as follows:

	(Thousands of Dollars)
1986	$ 3,713
1987	3,865
1988	3,617
1989	2,063
1990	489
	$13,747

9. Other Revenue

Included in other revenue are the following:

	1985	1984
	(Thousands of Dollars)	
Earned finance income from leasing	$165	$227
Investment income	220	277
Gain on sale of fixed assets	33	70
	$418	$574

10. Remuneration of Directors and Senior Officers

During 1985, the Corporation's eleven directors (1984 - eleven) received remuneration of $38,800 (1984-$19,550). The six senior officers (1984 - six) received, in aggregate, $399,318 (1984 - $375,620) in salaries for 1985.

11. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies, and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

12. Comparative Financial Information

Certain amounts have been reclassified to conform to the current year's presentation.